



# **5 Success-driving Actions: How to Manage Extreme Outsourcing Pricing**

February 8, 2022

# Introductions



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# Discussion points for today

**Developments that have changed the global services industry**

**Current pricing trends**

**Success-driving actions for enterprises**



- **Automation**
- **COVID-19**
- **Talent crunch**

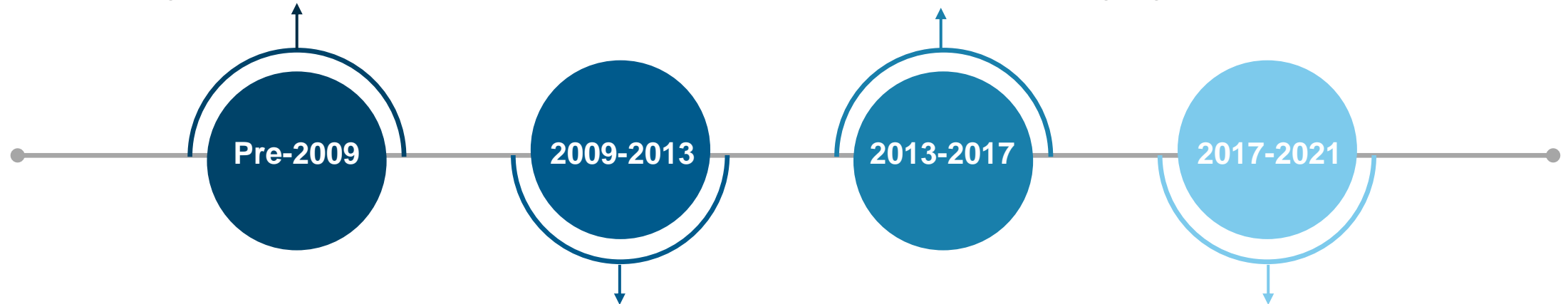
# The global services industry has seen more advances in the past 5 years than it did in the preceding 10

## Before the economic crisis

- Moderate offshoring; strong leverage of local or landed resources
- T&M / staff augmentation model
- Contracting tenets focused purely on delivery

## Process and tower-based synergies

- Moderate to high offshoring in “run and maintain” deals
- Process and people-based standardization
- Contracts bake in committed ongoing efficiency



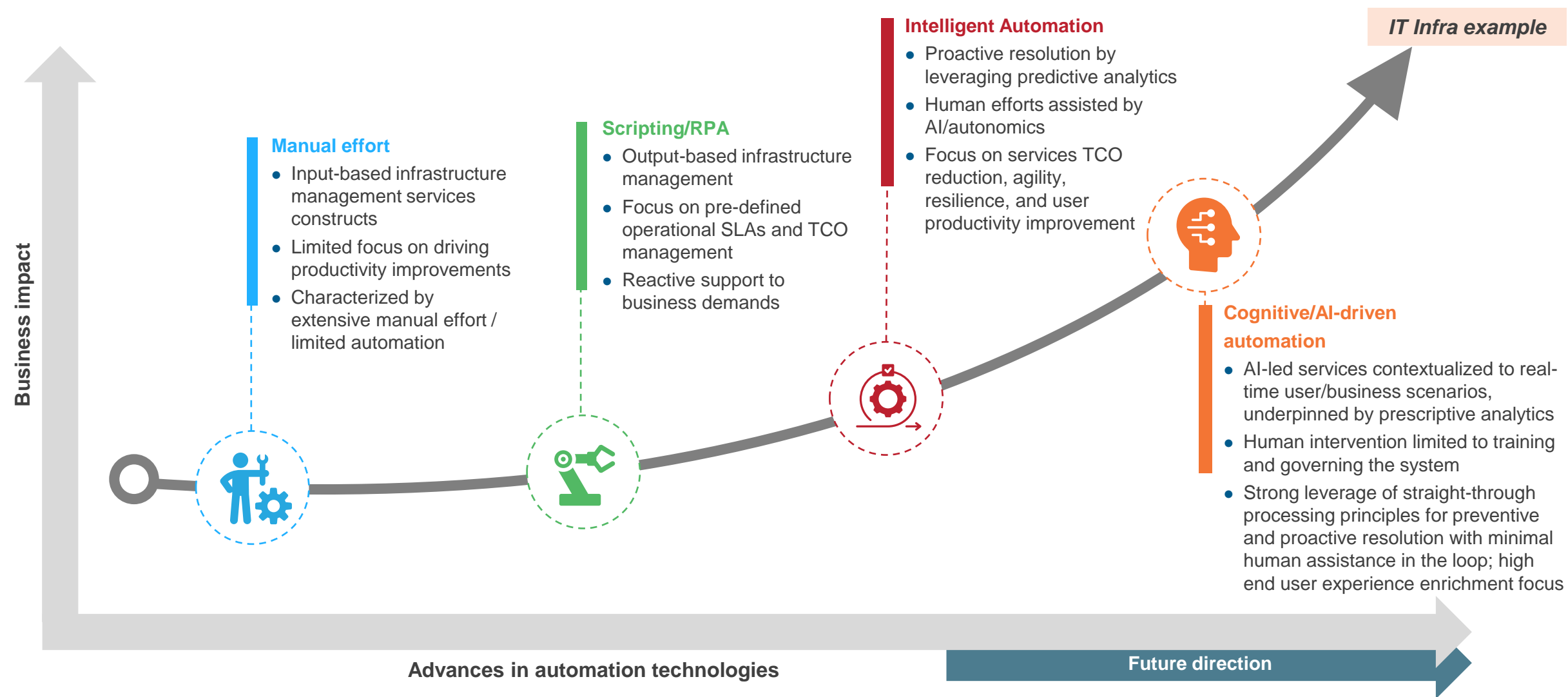
## Rise in offshoring

- Establishment of large offshore delivery centers
- Managed services (fixed fee) models
- Introduction to SMAC and prominence in discussions

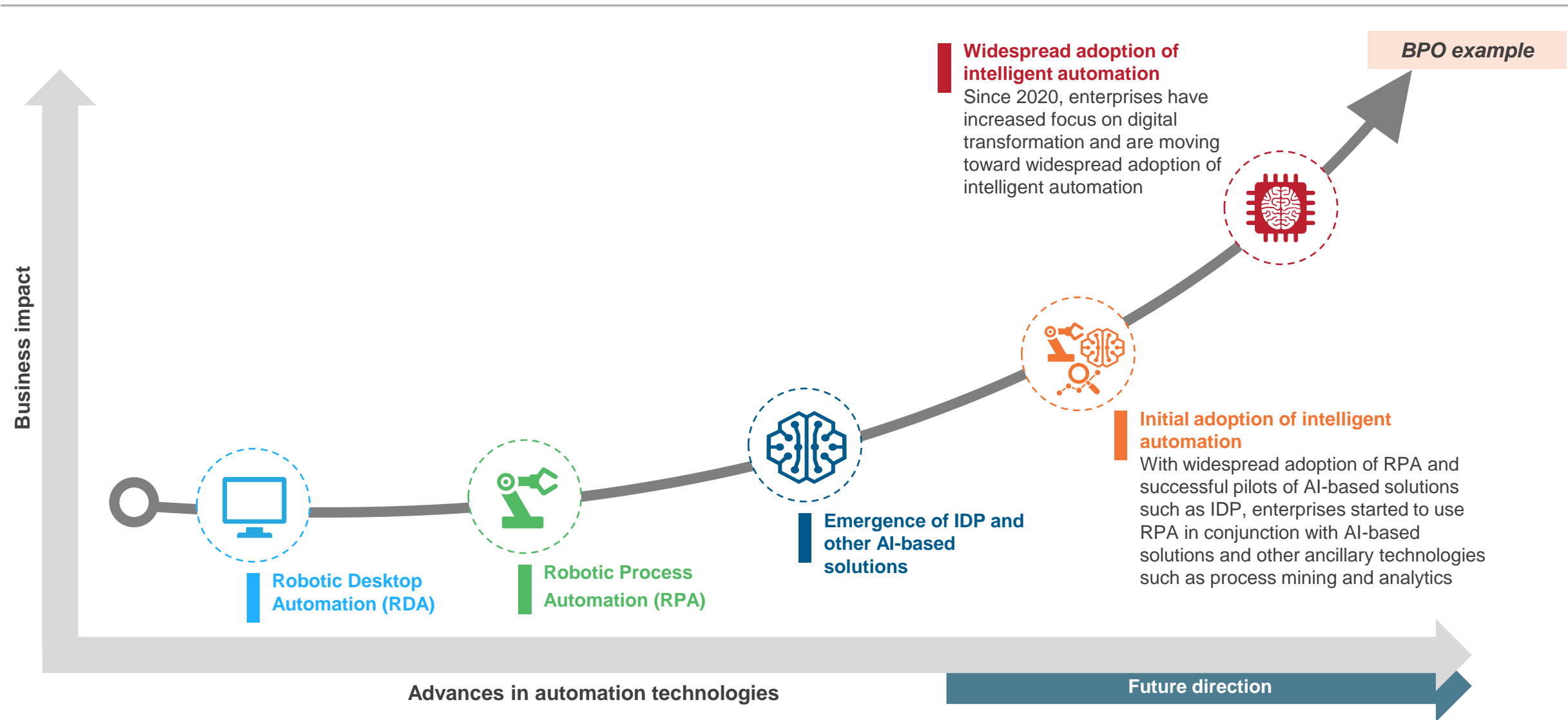
## Technology-led innovation

- Process automation becomes mainstream
- Analytics, cybersecurity, and cloudification becoming table stakes
- Enterprises take a hard look at the sustainability angle




# The automation story started in 2014-15 has unfolded progressively and is now one of the most vital aspects of an outsourcing solution



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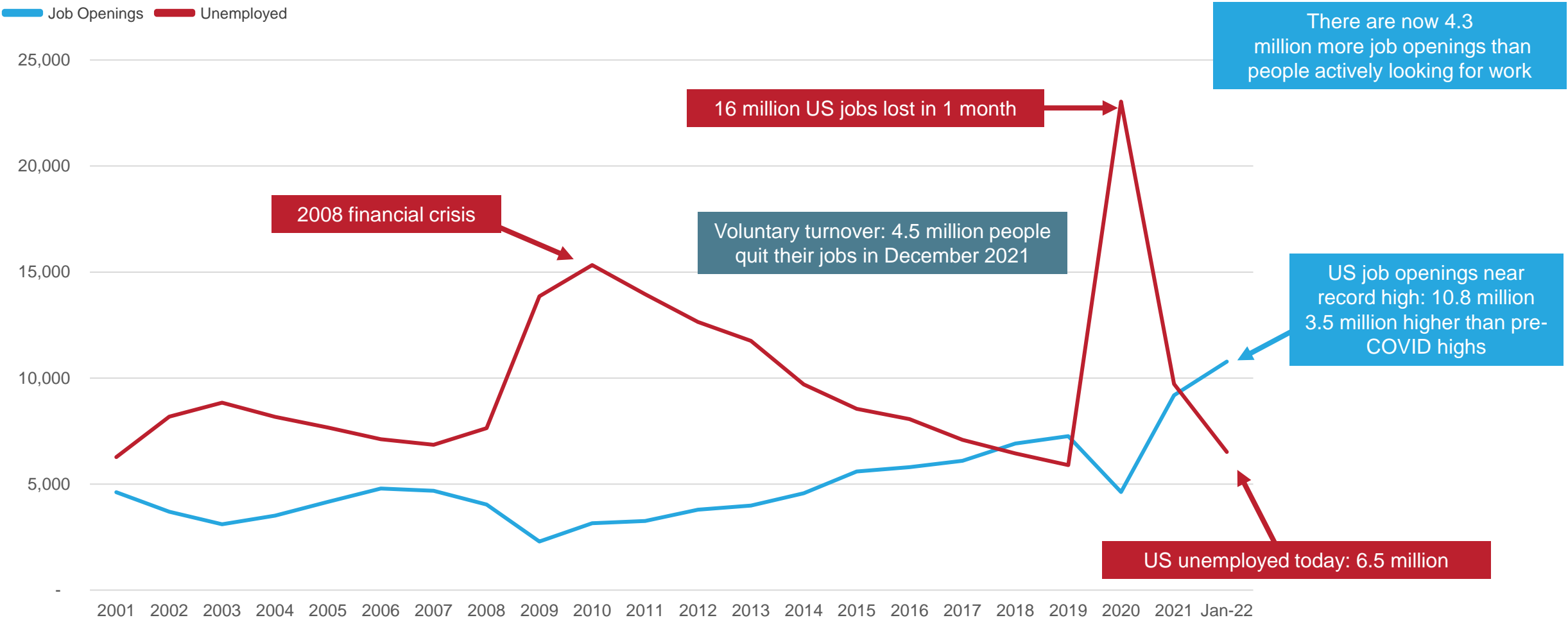


# The COVID-19 pandemic also challenged and then changed certain established notions about outsourcing

Pre-COVID		Post-COVID
High-touch nature with high travel and onsite requirements	 Transition	<ul style="list-style-type: none"><li>• Virtual transitions are the new normal</li><li>• Key enablers: digital knowledge transfer and management tools, process mining tools, collaboration, video conferencing, and digital training platforms</li></ul>
<ul style="list-style-type: none"><li>• Long, drawn-out implementation</li><li>• Substantial portion of benefits realized in year 3 and year 4</li></ul>	 Transformation	<ul style="list-style-type: none"><li>• Expedited implementation with sharper focus on RoI</li><li>• Benefits realization starts in year 1; substantial portion of benefits in year 2 and year 3</li></ul>
<ul style="list-style-type: none"><li>• Provider or client office were the only places of work</li><li>• The WAH model in contact centers was the only exception</li></ul>	 Office as the place of work	<ul style="list-style-type: none"><li>• WFH is the new normal for almost all services</li><li>• Clients amenable to a hybrid model in the long term (up to 70% of overall effort in a WFH mode)</li><li>• Segregated rate cards for B&amp;M vs. WFH</li></ul>

# The ongoing talent crunch might well be the trigger for the next wave of evolution in the industry...

US example

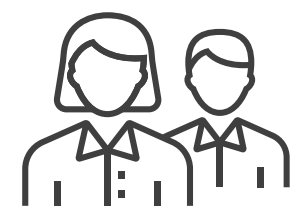
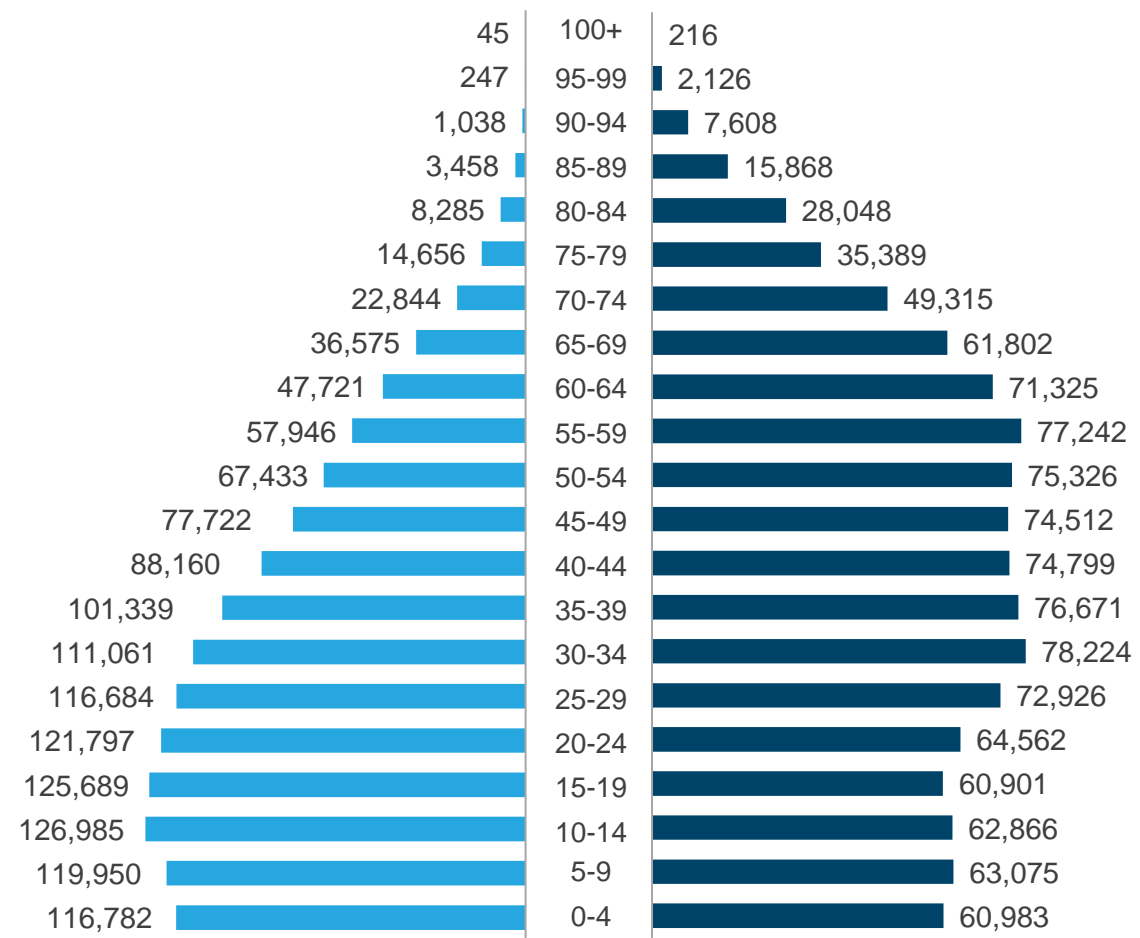


Source: US Job Opening and Labor Turnover Survey January, US Unemployment Data, Bureau of Labor Statistics, January 2022



# ... especially keeping in mind that labor pyramids for key locations indicate that fewer people will enter the workforce

Population by age, in thousands



Annualized new workers coming into market

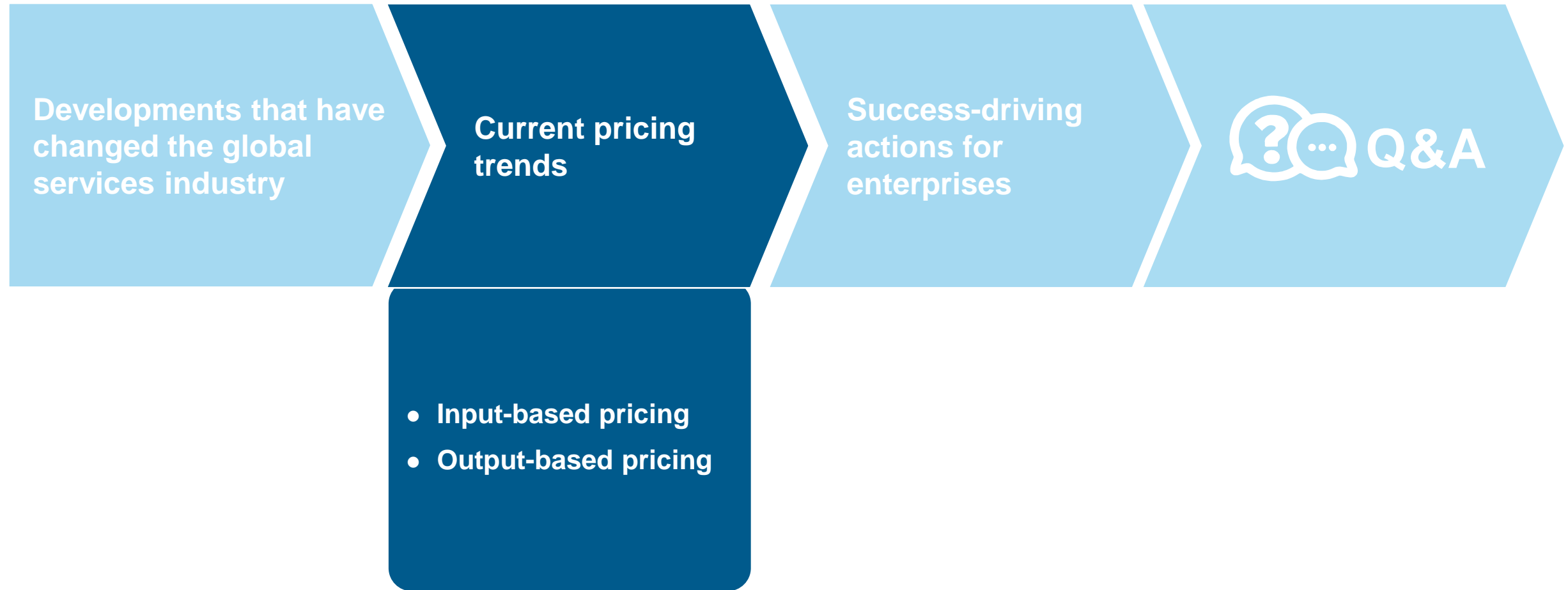
	India	North America and Europe
Aged 25-29	23.3 million	14.6 million
Aged 15-19	25.1 million	12.2 million
Net change annually	+1.8 million	-2.4 million

Bottom line: while demand is surging, the talent supply is unlikely to improve in the future

# How is your organization planning to deal with the talent crunch?

- Diversify the vendor portfolio – 7%
- Increase offshoring – 15%
- Diversify the offshore/nearshore location portfolio – 21%
- Increase outsourcing rates where appropriate – 9%
- Focus more on automation – 47%

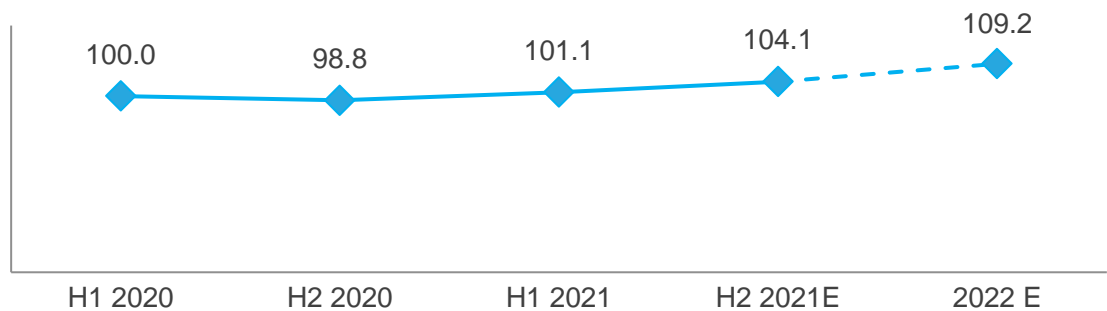
# Discussion points for today



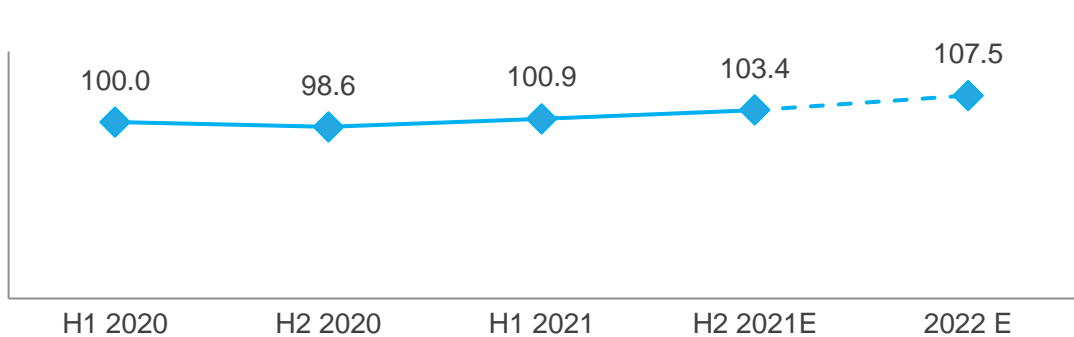
# Input-based pricing for BPO has increased in the last 12 months and is likely to increase further in 2022

## Transactional FAO pricing example

Trend in blended onshore (US) FTE price  
H1 2020 indexed to 100



Trend in blended offshore (India and Philippines) FTE price  
H1 2020 indexed to 100



### 2021 marked the reversal of a pricing decline trend

- Similar trend for other BPO segments (complex FAO, CCO, marketing BPO, banking BPO, healthcare BPO etc.)
  - Onshore pricing: up 3-6%
  - Offshore pricing: up 2-5%
- Key drivers:
  - Robust growth in demand
  - Attrition and demand-skill shortage especially onshore
  - High wage inflation
  - Specific to offshore, ForEx appreciation for a major part of the year

### Outlook for 2022

- Demand likely to remain strong
- Talent constraints expected to persist
- Specific to offshore, ForEx depreciation may provide some respite
- Overall, 3-5% pricing increase expected in 2022

Note: 2022 projections are based on trend/events that Everest Group has visibility into. Any unforeseen events or unexpected global business environment changes can have a material impact on future pricing movement

# Similarly, input-based pricing for IT has increased in the last 12 months and could increase further in 2022



## Generic IT application skills

Examples: Java, .NET, PHP, manual testing etc.



### Previous 12 months trend

- Onshore: +3-5%
- Offshore: +1-3%



### Next 12 months outlook

- Onshore: +3-5%
- Offshore: +3-4%



## Generic IT infrastructure skills

Examples: compute, storage, workplace, helpdesk



### Previous 12 months trend

- Onshore: +1-3%
- Offshore: +0-2%



### Next 12 months outlook

- Onshore: +2-5%
- Offshore: +2-4%



## Specialized IT skills

Examples: open stack, docker, cloud native app dev, containers, cyber security



### Previous 12 months trend

- Onshore: +4-6%
- Offshore: +2-5%



### Next 12 months outlook

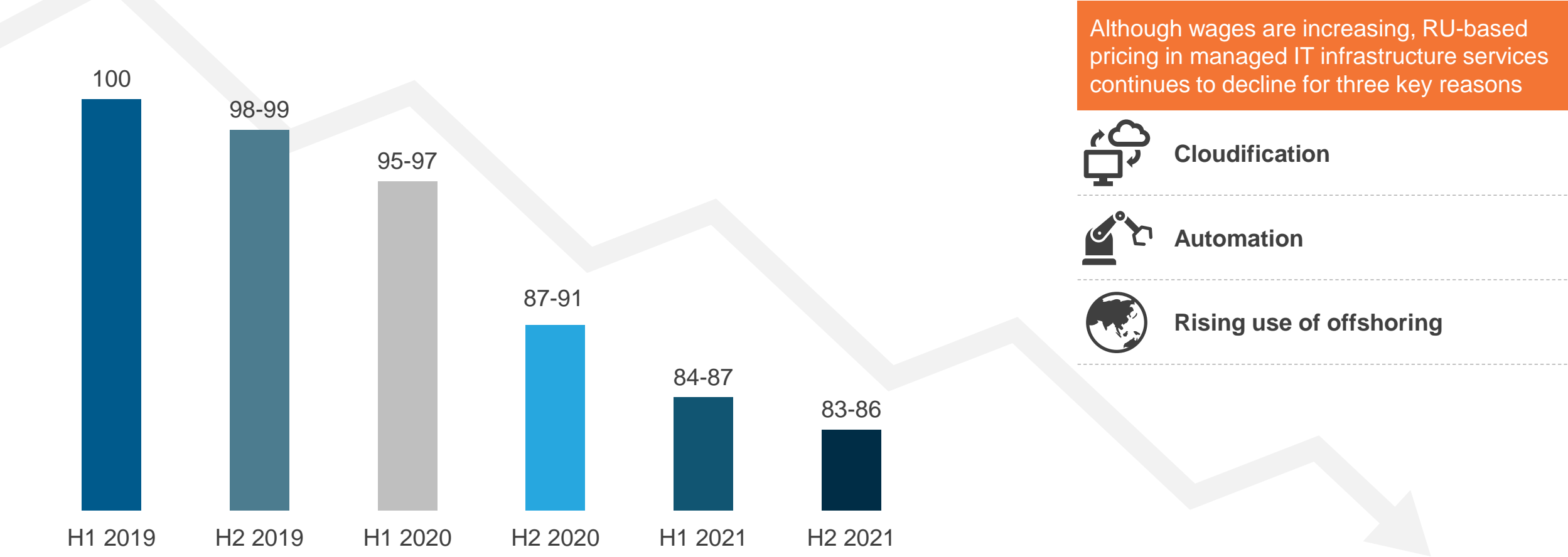
- Onshore: +5-8%
- Offshore: +5-7%

- Overall, a high wage inflation market onshore as well as offshore
- Price correction from hyper competitive deals of prior deals is expected especially onshore
- Specialized skills are a “seller’s market” with many buyers acceding to price increase demands to ensure a steady supply of resources

# However, output-based pricing has been declining due to increased productivity and more economical delivery models

Compute services pricing trend  
Prices indexed to H1 2019

IT INFRASTRUCTURE EXAMPLE





# Discussion points for today

Developments that have  
changed the global  
services industry

Current pricing  
trends

Success-driving  
actions for  
enterprises



# #1: Benchmark contracted pricing against the *current market rates*



## How competitive is your deal already?

Some enterprise clients may already be paying their providers much higher than market ranges. In such cases, it is important to not blindly agree to rate increase requests. The converse could also be true; a super-competitively negotiated set of rates should be examined for equitable increases.



## What are the most impacted scope areas?

Wage inflation is not the same across every skill set and even geography. Enterprises should assess the most critical skill sets for their businesses and determine which are seeing the most significant talent shortages. This process will help to prioritize focus areas for rate discussions.



## What is the justifiable magnitude of increase?

Use contemporary price benchmarks to ascertain the correct increase for each location and function. Avoid paying specialty skill premiums for mature skills and avoid across-the-board rate increases.

## Can FX rates be your ally?

Absolutely yes. Ensure that any benchmarks you leverage take into account FX trends, as currency depreciation in many offshore locations negates some of the pricing pressures for providers.



## #2: Calibrate the automation charter against market best practices

- The nature and extent of automation being leveraged in the industry has been consistently increasing over the last five to six years
- Automation elements that were a novelty 3 years ago are table stakes now
- It is imperative for enterprises to constantly push providers on increasing the use of automation in their solutions

IT APPLICATIONS EXAMPLE

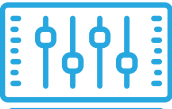
Tools and accelerators	2014-15	2016-17	2018-19	2020-21
E2E automation orchestrator	✓	✓	✓	✓
Point or wrapper solutions	✓	✓	✓	✓
Reporting dashboards	✓	✓	✓	✓
Intelligent knowledge management		✓	✓	✓
Autonomic problem resolution		✓	✓	✓
Automated test generation and execution			✓	✓
Conversational chatbots			✓	✓
Integrated DevOps toolchain				✓
Self-heal or self-service solutions				✓

## #2: Calibrate the automation charter against market best practices

- The RoI from automation has been inching up as well due to increasing maturity and penetration of automation solutions
- It is critical for enterprises to measure the value realized from automation and benchmark it with market norms

Large US-based manufacturing company outsourcing post-implementation support for ERP and peripheral applications

SANITIZED CASE STUDY



### Deal parameters

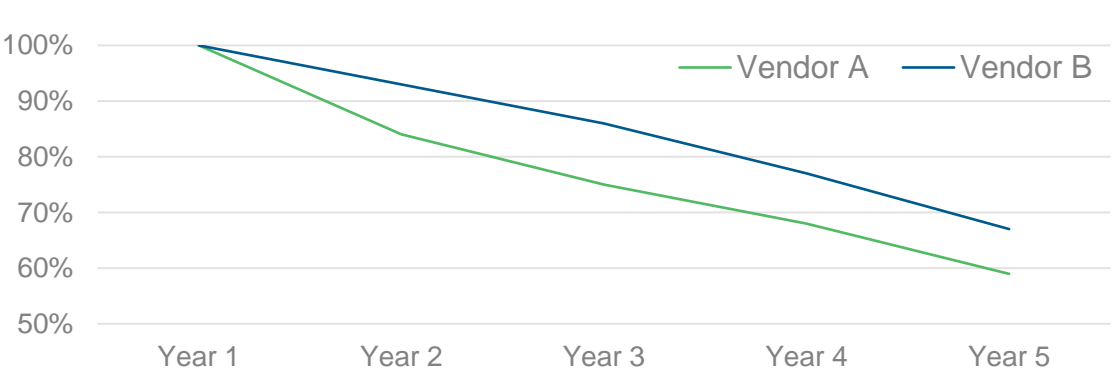
- Level of automation in incumbent provider’s as-is solution: **minimal**
- Level of competition in sourcing process: **high (five tier-1 providers; 2 selected for BAFO round)**



### Key insights

- The client’s focus was implementing a contemporary automation-based solution
- Focus on understanding benefits of automation as well as RoI from automation

FTE Glide-path in vendors’ solutions



TCV and Automation RoI for Vendors A and B

Parameter	Vendor A	Vendor B
TCV	\$15.9 M	\$15.5 M
Automation fee	\$0.5 M	\$0.6 M
Estimated savings from automation	\$2.2 M	\$0.9 M
RoI from automation	4.4X	1.5X

# #3: Review your engagement model and/or the pricing mechanism

Input- or FTE-based models are simple and transparent, but they are also the most susceptible to rate increases during times of high wage inflation

## Input-based pricing models

- Enterprises pay for time/effort spent
- Transparency is high
- Direct link between FTEs deployed and revenue for the provider
- Limited avenues for the provider to tweak margin

Wage increase is typically fully passed through



## Output-based pricing models

- Enterprises pay for delivery of agreed scope
- Transparency is relatively low
- De-links service provider revenue with FTEs deployed
- Incentivizes the provider to innovate/automate and deliver maximum scope with minimum FTEs

Service providers can offset wage increases through better operational efficiency



Through H2 2021, we have seen multiple cases where price increases for output-based models have been significantly lower!

# In your current portfolio, how much “role inflation” have you seen over the past year?

- Significant role inflation – 34%
- Some role inflation – 36%
- A little role inflation – 15%
- No role inflation – 3%
- I don’t know – 11%

**Note:** “Role inflation” is when the provider slots resources into a role that is one level senior to what the role actually requires. For example, pushing for senior developers to fulfill requirements where a developer is suitable.

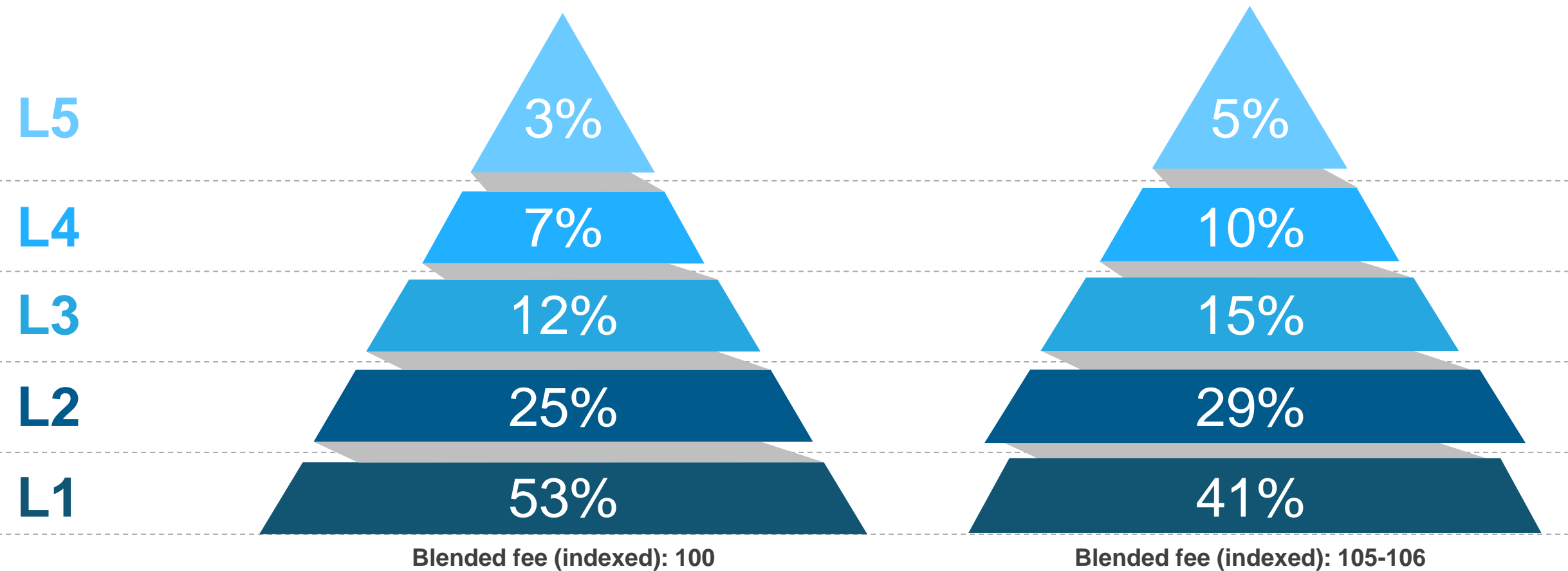
# #4: Benchmark your staffing pyramids

ILLUSTRATIVE EXAMPLE – AD OFFSHORE PYRAMID

“Role inflation” is not uncommon these days as a mechanism to increase prices. Even a seemingly innocuous change in staffing pyramids can lead to a 5-6% increase in overall fee.

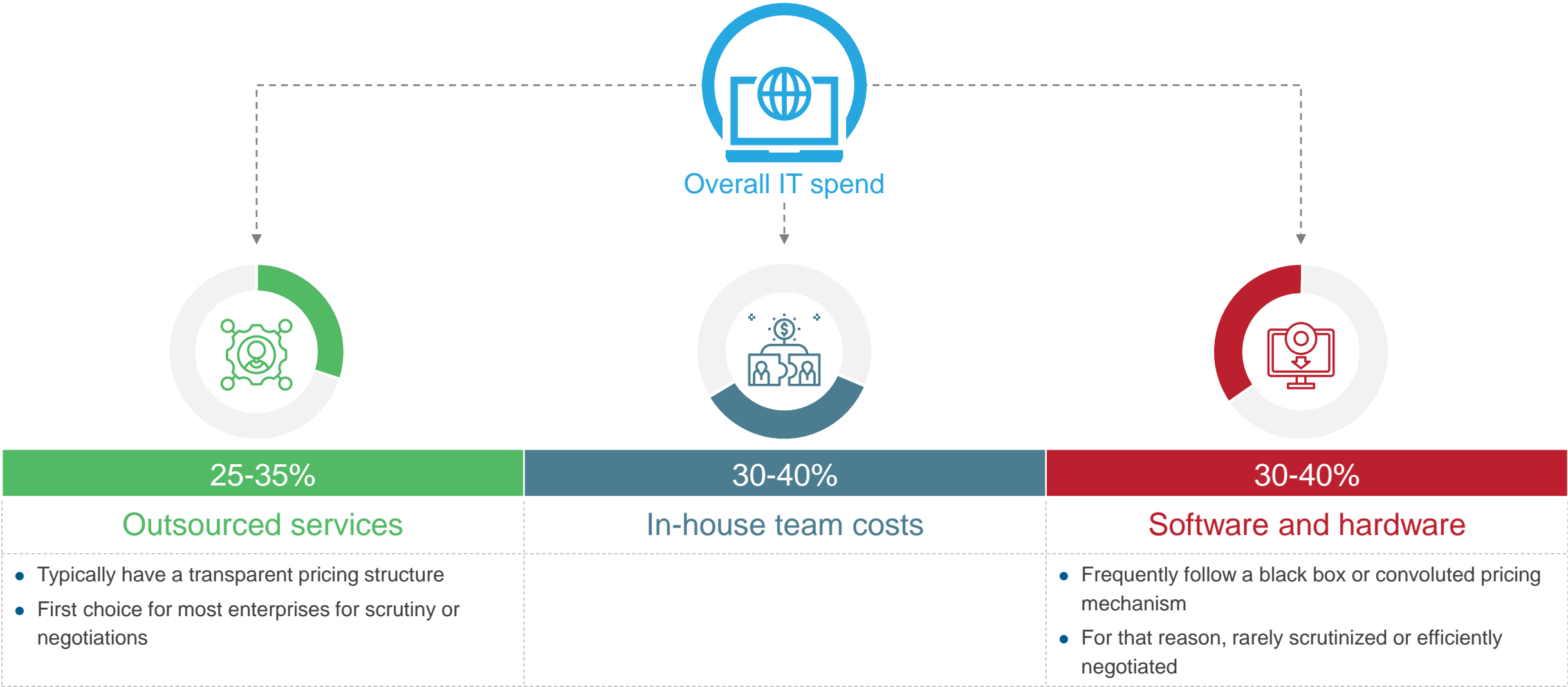
Scenario A – standard pyramid

Scenario B – tweaked pyramid





# #5: Look beyond services – reviewing software products and platforms pricing can yield significant benefits for the overall budget



# #5: Look beyond services – reviewing software products and platforms pricing can yield significant benefits for the overall budget

Spend on software products and licenses is **0.5-2%** of annual revenue for an enterprise, and enterprises should watch out for these common pitfalls.

## Incorrect Usage Estimation

- A common mistake is to overestimate the number of licenses, both in terms of volume and roles/privileges
- Underutilization of licenses typically leads to the highest amount of value leakage

## Right Pricing Model

- Almost all enterprise platforms have multiple pricing models based on licensing metric, version, and deployment options
- Choosing the right model involves navigating both current and future needs

## Audit Challenges

When estimating license requirements, many enterprises fail to account for future growth, and, therefore, exceed the contracted volume and risk an audit

## Discounting Regime

As product organizations evolve, newer products/licensing models are released in the market with discount of as much as 90%; keeping an eye out for these opportunities leads to significant savings

## Renewal price increase

- Most enterprise license agreements do not have a robust mechanism to protect against software price increases during renewal
- Having a mutually agreed renewal price protection clause enables minimal unforeseen cost overruns



# How do your software and platform license costs compare to the industry?

Get a complimentary license cost benchmarking diagnostic study (for enterprises only)

Everest Group's license cost benchmarking diagnostic helps enterprises quickly assess the high-level savings potential in their product portfolios

We will look into specific dimensions of your software or platform licensing contract, compare them with market norms, and assess the high-level opportunity size for you.

You can choose any one of the following products:

- Microsoft Office
- SAP
- Oracle
- Salesforce
- Service Now

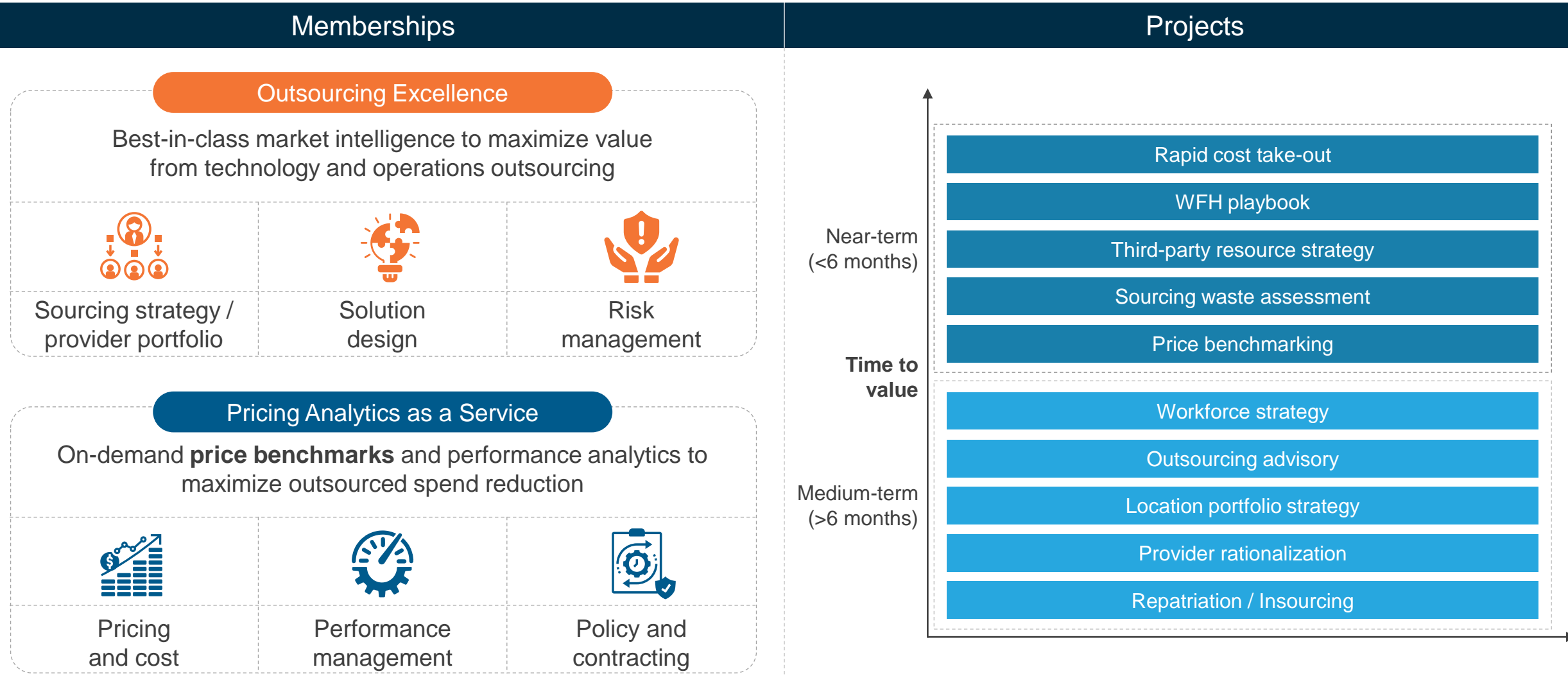


HOW

To request your complimentary benchmarking diagnostic, indicate your interest on the post-webinar survey, or contact **Michel, Abhishek, or Rahul** (email addresses on an upcoming slide)



# Everest Group assists procurement teams in capturing value from their services spend through memberships and focused projects



# Pricing analytics as a service for IT-BPS Services

## IT-BPS services pricing database snapshot



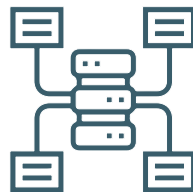
300+ roles



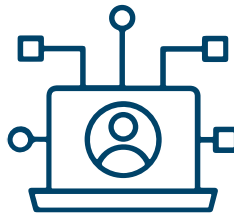
~50 locations



40+ sub functions



150+ RUs



375,000+ data points



1,000+ skills covered

## Illustrative functions covered

*not exhaustive*

BPS	IT-Apps	IT-Infra
F&A	DevOps	Workplace
Procurement	Testing	Cloud services
CXM	AMS	Cyber security
Human resources	Engineering	Network
Industry BPO	Data & analytics	Mainframe

Key features
Rate cards (T&M / staff augmentation)
Resource Unit (RU) / output- based pricing
Effort ratios and solution insights
SLA, KPIs, XLAs
Delivery metrics including shoring pyramids, and productivity
Contract T&Cs

# Discussion points for today

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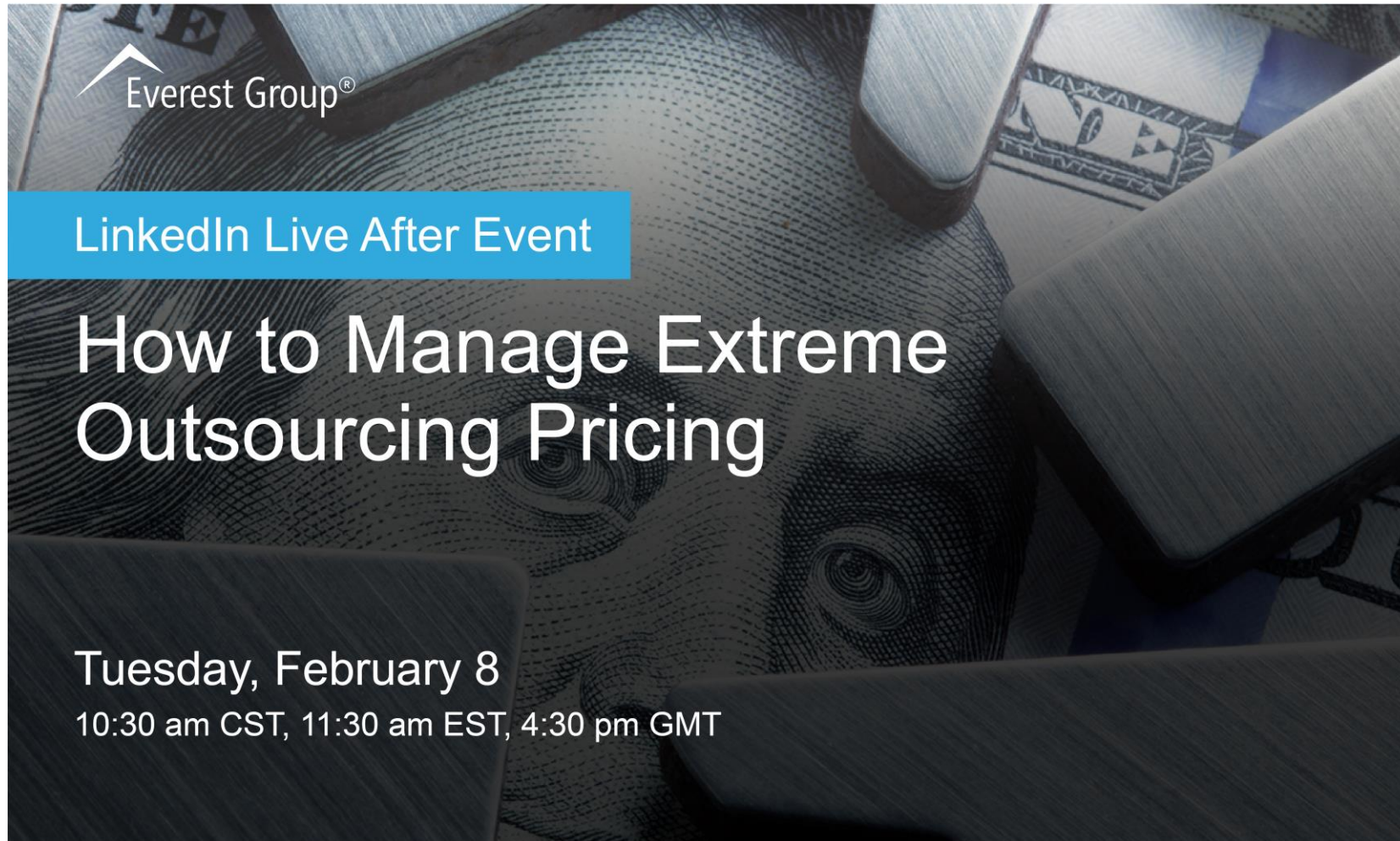
Developments that have changed the global services industry

Current pricing trends

Success-driving actions for enterprises



# Join us for the LinkedIn Live After Event at 10:30 am CST

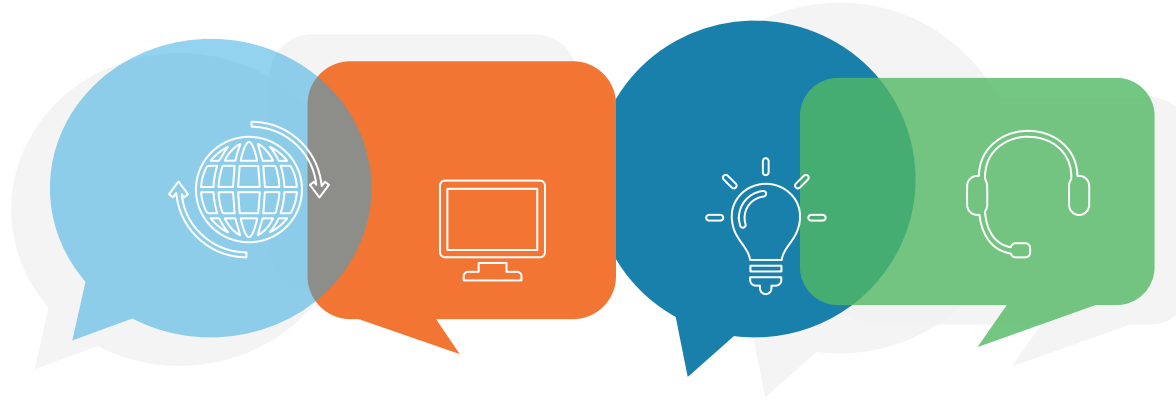


Everest Group®

LinkedIn Live After Event

## How to Manage Extreme Outsourcing Pricing

Tuesday, February 8  
10:30 am CST, 11:30 am EST, 4:30 pm GMT



### To ask a question during the live Q&A session

- Access the **Questions** panel within the Zoom console, which is typically located on the bottom of your Zoom window
- Type your question in the dialogue box, then select **Send** to submit the question to our session Organizers/Panelists
- Attendees will receive an email with instructions for accessing today's presentation
- To ask a specific follow-up question, or for a complimentary assessment of your organization's digital effectiveness, please contact:
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## “5 Success-driving Actions for 2022” webinar series

Over the coming months our analysts will be answering the question: what should you be doing?

### “5 Success-driving Actions for 2022” webinar series



5 Success-driving Actions GBS Organizations Need in 2022 – January 13, 2022 (on-demand available)



5 Success-driving Actions to Unlock BPS 4.0 Value – January 20, 2022 (on-demand available)



5 Success-driving Actions IT Workforce Leaders Need in 2022 – February 1, 2022 (on-demand available)



5 Success-driving Actions: How to Manage Extreme Outsourcing Pricing – February 8, 2022




5 Success-driving Actions for Sourcing and Vendor Management – February 15, 2022



5 Success-driving Actions: How to Unlock Hidden Talent – March 8, 2022

# Check out our blog for the latest perspectives on pricing and contracting for global services – [www.everestgrp.com/blog/](http://www.everestgrp.com/blog/)



Prateek Gupta

Practice Director

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### Sizing up your SAP S/4 HANA Implementation - Key Considerations to Estimating Your Effort Right | Blog


JULY 6, 2021 | SHARE

Incorrectly estimating the size of your team and effort in implementing SAP S/4 HANA can be a costly mistake that can be avoided by careful activities in each stage of greenfield and brownfield deals. To learn how to make a smart measurement of what it will take to successfully address Enterprise Resource Planning (ERP) system solution in your enterprise, read on.

Enterprises embarking on the digital transformation path often kickstart the journey by modernizing their Enterprise Resource Planning (ERP) system solution in your enterprise, read on.

SAP revamped its offering in 2015 by launching S/4 HANA suite as an enhanced version of its highly successful ERP Business suite – S/4 HANA. In a few years, it also changed the product positioning of S/4 HANA from a “Future-ready ERP” to an “Intelligent ERP,” leading to increased S/4 HANA implementation market.

However, despite being in the market for quite some time now, we often see effort and cost overruns, and project delays in SAP S/4 HANA deals. Inaccurate solution estimation is one of the major reasons for this occurring in most scenarios.



Peter Bender-Samuel

Founder & CEO


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### Trends In Rising Prices Affecting Companies Using Third-Party Services | Blog

AUGUST 2, 2021 | SHARE

Prices are rising for goods throughout the US economy because of inflation. Prices are also rising in third-party services, but the increase is more complicated than just an effect of inflation. Let's look at those complicating factors and the trends in how the price increase affects companies using third-party services.

[Read more in my blog on Forbes](#)



Rahul Gehani

Partner

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### Why the Focus Is Returning to Cost of Living Adjustments and Benchmarking Clauses in Outsourcing Contracts | Blog

AUGUST 11, 2021 | SHARE

Once standard provisions in outsourcing contracts – Cost of Living Adjustments (COLA) and benchmarking comparisons – are needed now more than ever to ensure long-term success for both parties in today's changed outsourcing environment. With the turn over the past half-year making it a seller's and employee's market, these clauses can ensure enterprises capture high-quality talent without being overcharged for service delivery. To learn more about why it's time to refocus on these provisions, read on.

Over the past six to eight months, the global services industry has experienced a curious turn from starting the year as a “buyer's market” due to uncertain demand and portfolio consolidation at large and medium enterprises. Similarly, the talent market was an “employer's market.”

Fast forward to today, and the contrast could not be starker. Demand for global services has been booming. Enterprises are looking to diversify their provider portfolios. All it takes is one look at the quarterly reports of providers to see it is a “seller's market,” while on the talent side, it is an “employee's market.”

[www.everestgrp.com/blog/](http://www.everestgrp.com/blog/)





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